REPORT OF EXAMINATION
OF THE

ESURANCE PROPERTY AND CASUALTY
INSURANCE COMPANY

AS OF
DECEMBER 31, 2004

Participating State
and Zone:

California

Filed March 24, 2006

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Los Angeles, California
January 13, 2006

Honorable Alfred W. Gross
Chairman of the NAIC Financial
Condition Subcommittee
Commissioner of Insurance
Virginia Bureau of Insurance
Richmond, Virginia

Honorable Gary L. Smith
Secretary, Zone IV-Western
Director of Insurance
Department of Insurance, State of Idaho
Boise, Idaho

Honorable John Garamendi
Insurance Commissioner
California Department of Insurance
Sacramento, California

Dear Chairman, Director and Commissioner:

Pursuant to your instructions, an examination was made of the

ESURANCE PROPERTY AND CASUALTY INSURANCE COMPANY

(hereinafter also referred to as the Company) at the Company's statutory home office and main administrative office located at 747 Front Street, San Francisco, California 94111.

SCOPE OF EXAMINATION

The previous examination of the Company was made as of December 31, 2001. This examination covers the period from January 1, 2002 through December 31, 2004. This examination was conducted pursuant to the National Association of Insurance Commissioners' plan of examination. The examination included a review of the Company's practices and procedures, an examination of management records, tests and analyses of detailed transactions within the examination period, and an evaluation of the assets and a determination of liabilities as of December 31, 2004, as deemed necessary under the circumstances.

In addition to those items specifically commented upon in this report, other phases of the Company's operations were reviewed including the following areas that require no further comment: Corporate records; fidelity bonds and other insurance; officers', employees' and agents' welfare and pension plans; loss experiences; business in force by states; accounts and records; and sales and advertising.

COMPANY HISTORY

On October 1, 2003, the Company was sold to Esurance Insurance Company (EIC) under the terms of a stock purchase agreement between EIC and OneBeacon Insurance Company (OBIC), the parent of the Company and EIC. In accordance with the stock purchase agreement, OBIC sold 20,000 shares to EIC, which constituted all of the issued and outstanding shares of the Company's common stock. The purchase price was $13,588,068, which was the Company's reported surplus as regards policyholders at September 30, 2003.

In December 2004, the Company's parent, EIC, was sold to White Mountains Luxembourg S.a.r.l. At the same time, EIC was contributed to Esurance Holdings, Inc., a subsidiary of White Mountains Luxembourg S.a.r.l.

On December 27, 2002, the Company paid a dividend of $47,182,213 in cash and securities to its then sole stockholder, OneBeacon Insurance Company. The California Department of Insurance (CDI) approved this dividend on December 2, 2002.

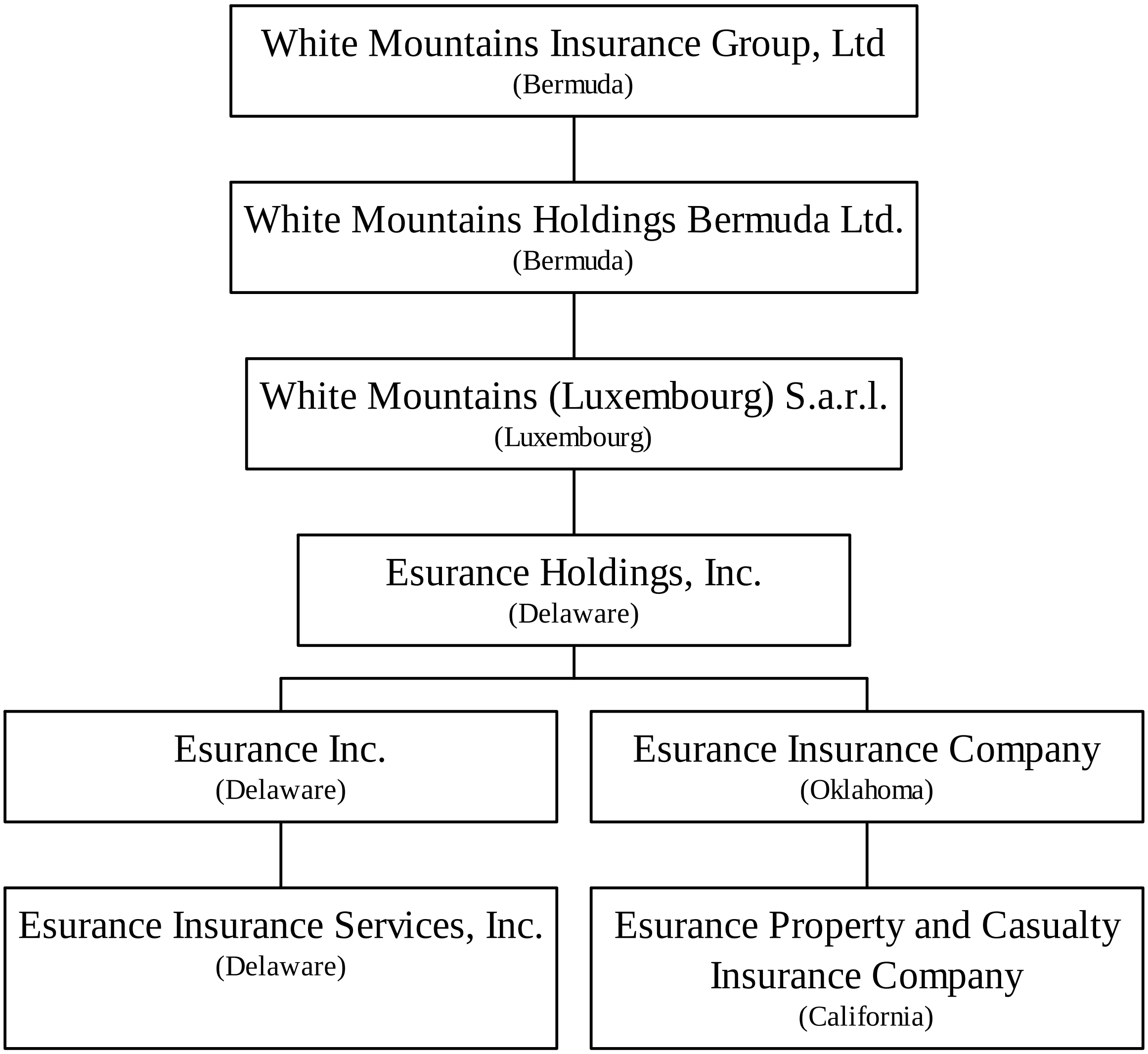
On July 24, 2003, the Company paid an extraordinary dividend to its shareholder of $76,250,000, as a return of contributed surplus, which was also reported to and approved by the CDI. A review of this transaction disclosed that the Company incorrectly recorded the entire extraordinary dividend as a return of contributed surplus. California Insurance Code (CIC) Section 1152(a) states, in part, that insurers may make dividends only from earned surplus. For purposes of this Code Section, earned surplus means unassigned funds as required to be reported on the insurer's annual statement.

In order to comply with the Code, the extraordinary dividend should have been recorded first as a decrease to unassigned funds (surplus) with the remaining amount of the dividend recorded as a return of contributed surplus. As a result of this incorrect recording of the extraordinary surplus dividend, the Company's unassigned funds are overstated by $4.98 million. It is recommended that the Company make the appropriate accounting adjustments in its current financial statements to accurately reflect the proper accounting for the extraordinary dividend. The Company agreed to make the appropriate accounting adjustments in its year-end 2005 Annual Statement.

MANAGEMENT AND CONTROL

White Mountains Insurance Group, Ltd., a Bermuda corporation, is the ultimate controlling entity of the Company. The Company is a stock corporation operating under the control of its sole shareholder and under the direction and management of its board of directors and officers.

The following is an abridged organizational chart depicting the Company within the holding company system:



Management of the Company is vested in a six-member board of directors elected annually. A listing of the members of the board and principal officers serving on December 31, 2004 follows:

Directors

Name and Residence	Principal Business Affiliation
Gary C. Tolman Mill Valley, California	President and Chief Executive Officer Esurance Holdings, Inc.
Charles L. Wallace, Jr. Burlingame, California	Vice President and Secretary Esurance Holdings, Inc.

Name and Residence	Principal Business Affiliation
Jonathan D. Adkisson San Rafael, California	Managing Direct and Treasurer Esurance Holdings, Inc.
Christopher M. Henn Corte Madera, California	Managing Director Esurance Inc.
John C. Swigart Corte Madera, California	Managing Director Esurance Inc.
Philip J. Swift Novato, California	Managing Director Esurance Inc.

Principal Officers

Name	Title
Gary C. Tolman	President and Chief Executive Officer
Jonathan D. Adkisson	Actuary and Treasurer
Christopher M. Henn	Vice President of Operations
Scott A. McCrae	Vice President of Underwriting
Philip J. Swift	Vice President of Information Technology
John C. Swigart	Vice President of Marketing
Charles L. Wallace Jr.	Secretary
Jennifer S. Vu	Controller

Management Agreements

Effective January 1, 2003, the Company is a party to an Insurance Management Service Agreement (Agreement) with its affiliate, Esurance Inc., the parent company of the Company's managing general agent, Esurance Insurance Services, Inc. (EISI). The agreement provides for accounting, tax, audit, functional support services and investment services, for a fee based on actual and reasonable expenses of Esurance Inc., not to exceed 8% of the Company's net earned premium. The agreement was approved by the California Department Insurance (CDI) on December 31, 2003. The amount paid by the Company under the terms of this agreement during the examination period was $587,136.

The Company also entered into an agency agreement with EISI, effective September 1, 2002. Under this agreement, EISI performs such services as may be required for the control and management of the Company including, but not limited to: underwriting; claim handling; policy administration; reinsurance services; and consumer services. Under the agency agreement, the Company pays EISI the following:

- An agency reimbursement for actual acquisition costs incurred by EISI;
- A provisional loss adjustment expense commission of 10% of premiums written, net of returns, generated by EISI in the current calendar year and a provisional loss adjustment expense commission of 3% of premiums written, net of returns, generated by EISI in the prior calendar year, which is adjusted at the end of each calendar year for actual expenses incurred.
- 100% of policy fees collected by EISI.

The agreement remains continuously in-force for a period of one year and automatically renews without action by the parties for subsequent one year periods until terminated. The agreement is currently being reviewed by the CDI.

The following is a summary of the amounts paid by the Company under the terms of this agreement during the examination period:

Year	Amounts
2002	$ 2,591,087
2003	8,903,300
2004	13,991,243
Total	$25,485,630

Effective July 1, 2002, the Company entered into an Investment Management Agreement with OneBeacon Asset Management, Inc. (OBAM), now known as White Mountain Advisors LLC (WMA). Under the terms of this agreement, WMA provides investment management services. The fees for these services are paid on a quarterly basis at .3% of the investments managed, up to

$100 million of the investment portfolio. The agreement was approved by the CDI on October 4, 2002. The amount paid by the Company under the terms of this agreement during the examination period was $357,327.

The Company participated in a tax allocation agreement dated December 31, 2001 with its former parent, now affiliate, Fund American Enterprises Holdings, Inc. (FAEH) and affiliates (collectively "the Affiliated Group") until December 18, 2004, when an updated agreement between Fund American Enterprises Holdings, Inc. and Esurance Holdings, Inc. and its subsidiaries (EHoldings Affiliated Group) was put into place. The new agreement provides for a separate consolidated tax filing for the EHoldings Affiliated Group and preserves the respective rights and obligations of the parties under the 2001 tax allocation agreement.

The Company and Pennsylvania General Insurance Company (PENGEN), an affiliate, are parties to a Limited Assignment Distribution (LAD) agreement wherein PENGEN accepts and services the Company's assignments from the California Automobile Insurance Plan and the California Automobile Assigned Risk Plan for the Low Cost Automobile Program.

TERRITORY AND PLAN OF OPERATION

The Company writes private passenger automobile insurance produced through its affiliate, Esurance Insurance Services, Inc., a managing general agency. The insurance written is marketed and sold to consumers primarily through the agency's website and through a toll-free telephone number.

The Company is currently licensed to transact business in the following states: California, Colorado, Florida, Illinois, Maryland, Michigan, Missouri, Ohio, Pennsylvania, Texas, Virginia and Washington. The Company has pending applications for certificates of authority in the following states: Connecticut, Minnesota, Nevada and New York. The Company currently only writes business in California. In 2004, the Company wrote $49.9 million of direct premiums.

REINSURANCE

Assumed

The Company has no assumed reinsurance.

Ceded

The Company entered into a 90% quota share reinsurance agreement with its parent, Esurance Insurance Company (EIC) on January 1, 2004. Under the terms of the reinsurance agreement, the Company cedes 90% of its premium and losses to EIC, for a 17.5% ceding commission, which is adjusted for actual acquisition expenses on a quarterly basis.

Since EIC is not an authorized reinsurer in the State of California and in conjunction with the above mentioned quota share reinsurance agreement, EIC applied for and received approval from the California Department of Insurance (CDI) to be an accredited reinsurer. EIC's accredited reinsurer status allows the Company to take financial statement credit for cessions to EIC without the collateral that would otherwise be required under California Insurance Code (CIC) Section 922.5 for cessions to unauthorized reinsurers. EIC currently has another renewal application pending with the CDI and, if approved, that application will permit statement credit for cessions to EIC through September 30, 2006. In addition, as recommended by the CDI, EIC will apply for a California certificate of authority in 2006.

As a condition for the approval, EIC's Risk-Based Capital (RBC) ratio must not fall below 250%. If the RBC ratio falls below this level, the Company can only take financial statement credit to the extent that there is sufficient collateral in the form of funds withheld.

As of December 31, 2004, reinsurance recoverables on paid and unpaid loss and loss adjustment expenses and unearned premiums totaled $28.4 million, or 204% of the Company’s surplus as regards policyholders. Of this amount, $27.7 million or 98% of the reinsurance recoverables were from the Company's parent, EIC, under the terms of the quota share agreement.

FINANCIAL STATEMENTS

The financial statements prepared for this examination report include:

Statement of Financial Condition as of December 31, 2004

Underwriting and Investment Exhibit for the Year Ended December 31, 2004

Reconciliation of Surplus as Regards Policyholders
from December 31, 2001 through December 31, 2004

Statement of Financial Condition
as of December 31, 2004

Assets	Ledger and Nonledger Assets	Assets Not Admitted	Net Admitted Assets	Notes
Bonds	$ 5,561,221	$	$ 5,561,221	(1)
Cash and short-term investments	10,530,343		10,530,343	
Receivable for securities	6,000		6,000	
Agents' balances or uncollected premiums:				
Premiums and agents' balances in course of collection	730,430	161,017	579,413	
Premiums, agents' balances and installments booked but deferred and not yet due	7,300,679		7,300,679	
Reinsurance recoverable on loss payments	3,285,083		3,285,083	
Interest, dividends, and real estate income due and accrued	37,460		37,460	
Receivable from parent, subsidiaries and affiliates	2,554,276		2,554,276	
Total assets	$ 30,015,492	$ 161,017	$ 29,854,475	

Liabilities, Surplus and Other Funds			
Losses		$ 1,206,179	(2)
Loss adjustment expenses		237,865	(2)
Other expenses		21,670	
Taxes, licenses and fees		480,342	
Federal and foreign income taxes		207,597	
Net deferred tax liability		77,421	
Unearned premiums		1,343,377	
Ceded reinsurance premiums payable		6,062,424	
Provision for reinsurance		128,565	
Payable to parent, subsidiaries, and affiliates		4,407,616	
Aggregate write-ins for liabilities		153,720	
Total liabilities		15,929,437	
Common capital stock	$ 2,600,000		
Gross paid-in and contributed surplus	2,583,924		
Unassigned funds (surplus)	8,741,114		
Surplus as regards policyholders		13,925,038	
Total liabilities, capital and surplus		$ 29,854,475	

Underwriting and Investment Exhibit
for the Year Ended December 31, 2004

Statement of Income

Underwriting Income		
Premiums earned		$ 4,625,346
Deductions:		
Losses incurred	$ 2,586,486	
Loss expense incurred	503,381	
Other underwriting expenses incurred	3,961,083	
Total underwriting deductions		7,050,950
Net underwriting loss		(2,425,604)
Investment Income		
Net investment income earned	$ 279,339	
Net realized capital loss	(161,764)	
Net investment gain		117,575
Other Income		
Finance and service charges not included in premiums	$ 2,510,688	
Total other income		2,510,688
Net income before dividends to policyholders and before federal income taxes		202,659
Federal income taxes incurred		500,112
Net loss		$ (297,453)

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2003		$ 13,738,051
Net loss	$ (297,453)	
Change in net deferred income tax	537,189	
Change in nonadmitted assets	(78,016)	
Change in provision for reinsurance	25,266	
Change in surplus as regards policyholders		186,987
Surplus as regards policyholders, December 31, 2004		$ 13,925,038

Reconciliation of Surplus as Regards Policyholders
from December 31, 2001 through December 31, 2004

	Gain in Surplus	Loss in Surplus	
Surplus as regards policyholders, December 31, 2001, per Examination			$ 128,616,136
Net income	$ 9,286,906	$	
Change in net deferred income tax		256,210	
Change in nonadmitted assets		161,016	
Change in provision for reinsurance		128,565	
Surplus adjustments: return of contributed surplus		76,250,000	
Dividends to stockholders		47,182,213	
Totals	$ 9,286,906	$123,978,004	
Net decrease in surplus as regards policyholders for the examination			(114,691,098)
Surplus as regards policyholders, December 31, 2004, per Examination			$ 13,925,038

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Bonds

The Company's custodial agreement between General Accident Reinsurance Company (the Company's former name) and Mellon Trust (Mellon Trust) of California should be amended to reflect the current names of the parties to the agreement. It is recommended that the Company take the necessary steps to amend the custodial agreement. As a result of this recommendation, the Company has contacted Mellon Trust in order to amend the custodial agreement. The Company anticipates that the agreement will be amended by the end of the 3rd quarter of 2006.

(2) Losses and Loss Adjustment Expenses

Based on an analysis by a Casualty Actuary for the California Department of Insurance, the Company’s loss and loss adjustment expense reserves as of December 31, 2004 were found to be reasonably stated and have been accepted for purposes of this examination.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

Company History (Page 2): It is recommended that the Company make the appropriate accounting adjustments in its current financial statements to accurately reflect the proper accounting for the extraordinary surplus dividend. As a result of this recommendation, the Company properly reflected the extraordinary surplus dividend in its 2005 Annual Statement.

Bonds (Page 13): It is recommended that the Company take the necessary steps to amend its custodial agreement. As a result of this recommendation, the Company indicated that the agreement will be amended by the end of the 3rd quarter of 2006.

Previous Report of Examination

Reinsurance: Assumed (Page 7): It was recommended that the Company apply for the written consent of the California Department of Insurance (CDI) with respect to the commutation and novation agreements that took effect during the period covered by the previous examination in order to comply with California Insurance Code (CIC) Section 1011(c). A CIC 1011(c) application was submitted in September 2003. Consent was granted by the CDI in May 2004 for these commutation and novation agreements.

Reinsurance – Ceded (Page 9): It was noted that the aggregate loss portfolio reinsurance agreement with OneBeacon Insurance Company, the Company's parent, and the adverse development reinsurance agreement with Potomac Insurance Company, an affiliate, contained an insolvency clause that did not meet the requirements of the CDI. It was recommended that the Company comply with CIC Section 922.2(a)(2). The reinsurance agreement is no longer in force.

ACKNOWLEDGEMENT

The courtesy and cooperation extended by the Company's officers and employees during the course of this examination are hereby acknowledged.

Respectfully submitted,

/S/

Richard M. Stone, CFE
Senior Insurance Examiner Supervisor
Department of Insurance
State of California